

Paper and iron

Hamburg business and German
politics in the era of inflation,
1897–1927

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Introduction

I

Blood and iron, gold and iron, coal and iron, rye and iron – these are among the most vivid images in the history of the German Reich. We think of Bismarck's speech to the Prussian Diet's budgetary committee in September 1862,¹ of Bleichröder's financing of the iron Chancellor's wars,² of Keynes's comment on the economic roots of German power,³ of Kehr's stress on the role of agrarian and industrial interest groups in Wilhelmine politics.⁴ This book, however, turns away from these more familiar themes of German historiography, to consider the relationship between paper and iron – in particular, between the paper instruments which financed the economic life of Germany's largest port, and the iron ships built there to transport and protect its commerce; more generally, between the paper notes and bonds produced by the Reich printing press in Berlin's Oranienstraße, and the industrial and military power of the Reich itself. The principal question it seeks to address is: what were the causes and consequences of the German Reich's chronic susceptibility to inflation?

It is fair to say that, until relatively recently, historians tended to be more interested in deflation than inflation as a factor in the historical development of the German Reich. The two economic events which were seen as having had the most decisive influence on modern German history were, firstly, the *Gründerkrach* of 1873–4 and the subsequent period of stagnation, linked by Rosenberg and others to the crisis of liberalism in the late 1870s;⁵ and, secondly, the Slump of 1929–32,

¹ L. Gall, *Bismarck. The White Revolutionary*, vol. I: 1815–1871 (London, 1986), p. 204.

² F. Stern, *Gold and Iron. Bismarck, Bleichröder and the Building of the German Empire* (London, 1977).

³ J.M. Keynes, *The Economic Consequences of the Peace* (London, 1919), p. 75.

⁴ E. Kehr, 'Englandhaß und Weltpolitik', in H.-U. Wehler (ed.), *Der Primat der Innenpolitik. Gesammelte Aufsätze zur preußisch-deutschen Sozialgeschichte im 19. und 20. Jahrhundert* (Berlin, 1970), pp. 149–77.

⁵ H. Rosenberg, *Große Depression und Bismarckzeit* (Berlin, 1967); *idem*, 'The Political and Social Consequences of the Great Depression of 1873–1896 in Central Europe',

usually seen as the main cause of the collapse of the Weimar Republic.⁶ In the popular mind, however, equal if not greater importance has long been attached to the 1923 hyperinflation, the 'memory' of which is frequently cited to explain the relative stringency of recent (West) German monetary policy.⁷ Of course, few Germans now living have first-hand recollections of events which took place seventy years ago. Leaving aside oral tradition, this 'memory' therefore owes at least some of its longevity to post-war textbooks on modern German history, which have tended to advance one or more of three negative theses about the inflation – that it was caused by irresponsible fiscal and monetary policies; that it benefited 'greedy industrialists' while 'stripping the middle classes of their savings'; and that it contributed significantly to the rise of Hitler. According to Golo Mann, for instance, 'whole sections of the population were expropriated and an age-old confidence was destroyed and replaced by fear and cynicism'; a view echoed by Hajo Holborn and Erich Eyck.⁸ Influential Anglo-Saxon writers of the same generation advanced similar interpretations. According to A.J.P. Taylor:

The former rentiers became resentful of the republic [. . .] and ready to follow the first demagogic saviour not blatantly from the industrial working class. The inflation, more than any other single factor, doomed the republic.⁹

Gordon Craig explicitly blamed the inflation on the 'self-interest and irresponsibility of German business, which was known for its anti-republican stance', attributing subsequent support for Nazism to the 'wounds' it left 'in the collective psyche' of the *Mittelstand*.¹⁰

That the bulk of the lower middle class looked to Adolf Hitler as a saviour was due less to the Great Depression of the Thirties [than] to the memory of the great inflation of 1923. [. . .] For millions of Germans, that unprecedented and bewildering event hopelessly compromised faith in representative government.¹¹

in J.J. Sheehan (ed.), *Imperial Germany* (New York, 1970), pp. 39–60. See also A. Gerschenkron, *Bread and Democracy in Germany* (Ithaca, 1989), pp. 42–7; H.-U. Wehler, *The German Empire* (Leamington Spa, 1985), pp. 32–9.

⁶ For contrasting interpretations: D. Abraham, *The Collapse of the Weimar Republic. Political Economy and Crisis* (Princeton, 1981); H. James, *The German Slump. Politics and Economics 1924–1936* (Oxford, 1986).

⁷ D. Marsh, *The Bundesbank. The Bank that Rules Europe* (London, 1992), esp. pp. 18, 29, 99ff.

⁸ G. Mann, *The History of Germany since 1789* (London, 1987), pp. 588–95; H. Holborn, *A History of Modern Germany*, vol. III: 1840–1945 (London, 1969), pp. 595–601; E. Eyck, *A History of the Weimar Republic*, vol. I (Oxford, 1962), p. 171. Cf. F. Meinecke, *Die deutsche Katastrophe* (Wiesbaden, 1965), pp. 54f.

⁹ A.J.P. Taylor, *The Course of German History* (London, 1961), pp. 227f.

¹⁰ G.A. Craig, *Germany, 1866–1945* (Oxford, 1981), pp. 450–6.

¹¹ *Idem*, *The Germans* (Harmondsworth, 1984), pp. 120f.

Similar verdicts can be found in many more recent textbooks;¹² and although they have been substantially qualified as a result of the recent enormous concentration of scholarly resources on the inflation,¹³ they have certainly not been overturned.

Such critical views owe a considerable debt to a book, *Le Vicende del Marco Tedesco*, published by the Italian economist Costantino Bresciani-Turroni in 1931.¹⁴ According to Bresciani, 'the fundamental cause[s] of the paper inflation and consequently of the depreciation of the mark' were 'the budget deficit' and errors in 'banking policy', both of which he traced back to the outbreak of the war.¹⁵ The

¹² See, e.g., A.J. Nicholls, *Weimar and the Rise of Hitler* (London, 1979), pp. 74ff.; H. Schulze, *Weimar: Deutschland 1917–1933* (Berlin, 1982), pp. 34–9; V. Berghahn, *Modern Germany. Society, Economy and Politics in the Twentieth Century* (Cambridge, 1987), pp. 67–72; M. Fulbrook, *Germany 1918–1990. The Divided Nation* (London, 1991), p. 34. See also F.K. Ringer, *The German Inflation of 1923* (New York, 1969); A. Ferguson, *When Money Dies. The Nightmare of the Weimar Collapse* (London, 1975); W. Guttman and P. Meehan, *The Great Inflation: Germany, 1919–1923* (London, 1975).

¹³ Under the informal leadership of Gerald Feldman and others, a series of important volumes of essays on the inflation has been produced since 1978: O. Büsch and G.D. Feldman (eds.), *Historische Prozesse der Deutschen Inflation 1914 bis 1924. Ein Tagungsbericht [Einzelveröffentlichungen der historischen Kommission zu Berlin, Bd. 21]* (Berlin, 1978); G.D. Feldman, C.-L. Holtfrerich, G.A. Ritter and P.-C. Witt (eds.), *Die deutsche Inflation. Eine Zwischenbilanz [Beiträge zu Inflation und Wiederaufbau in Deutschland und Europa 1914–1924, Bd. 1]* (Berlin/New York, 1982); *idem*, *Die Erfahrung der Inflation [Beiträge zu Inflation und Wiederaufbau in Deutschland und Europa 1914–1924, Bd. 2]* (Berlin/New York, 1984); *idem*, *Die Anpassung an die Inflation [Beiträge zu Inflation und Wiederaufbau in Deutschland und Europa 1914–1924, Bd. 8]* (Berlin/New York, 1986); *idem*, *Die Konsequenzen der Inflation [Einzelveröffentlichungen der Historischen Kommission zu Berlin, Bd. 67. Beiträge zu Inflation und Wiederaufbau in Deutschland und Europa 1914–1924]* (Berlin, 1989); G.D. Feldman and E. Müller-Luckner (eds.), *Die Nachwirkungen der Inflation auf die deutsche Geschichte, 1924–1933* (Munich, 1985). For a survey of some of this literature see M. Schneider, 'Deutsche Gesellschaft in Krieg und Währungskrise 1914–1924', *AfS*, 16 (1986), pp. 301–20.

¹⁴ C. Bresciani-Turroni, *Le Vicende del Marco Tedesco* (Bocconi, 1931), translated as *The Economics of Inflation. A Study of Currency Depreciation in Post-War Germany* (London, 1937). Bresciani was in Germany for most of the 1920s, representing Italy on the Reparations Commission and its successor. Cf. the less well-known German accounts by E. Schultze, *Not und Verschwendung. Untersuchungen über das deutsche Wirtschaftsschicksal* (Leipzig, 1923); A. Jessen, *Finanzen, Defizit und Notenpresse, 1914–1922* (Berlin, 1923); K. Elster, *Von der Mark zur Reichsmark. Die Geschichte der deutschen Währung in den Jahren 1914 bis 1924* (Jena, 1928); P. Beusch, *Währungszerrfall und Währungsstabilisierung* (Berlin, 1928); F. Hesse, *Die deutsche Wirtschaftslage von 1914 bis 1923. Krieg, Geldblähe und Wechselagen* (Jena, 1938).

¹⁵ Bresciani, *Inflation*, pp. 42–51, 47–74, 75–82, 155–82. Those historians who use the phrase 'the inflation' to refer only to the year 1923 overlook the protracted nature of the crisis. Most accounts identify between three and six phases: in Bresciani's case, 1914–18; 1918–19; July 1919 to February 1920; February 1920 to May 1921; May 1921 to July 1922; July 1922 to June 1923; June 1923 to December 1923; *ibid.*, pp. 25–38. Cf. F.D. Graham, *Exchange, Prices and Production in Hyperinflation Germany 1920–1923* (Princeton, 1930), p. 153; K. Laursen and J. Pedersen, *The German Inflation, 1918–1923* (Amsterdam, 1964), pp. 17–21.

consequences of the collapse of the currency, he argued, were almost entirely negative: falling productivity, a misallocation of resources, 'profound disequilibrium in the economic organism', 'the vastest expropriation of some classes of society that has ever been effected in time of peace', and declines in public health and morality:

It annihilated thrift [. . .] It destroyed [. . .] moral and intellectual values [. . .] It poisoned the German people by spreading among all classes the spirit of speculation and by diverting them from proper and regular work, and it was the cause of incessant political and moral disturbance. [. . .] Moreover, by reinforcing the economic position of those classes who formed the backbone of the 'Right' parties, i.e. the great industrialists and financiers, (it) encouraged the political reaction against democracy.¹⁶

When Lionel Robbins wrote his Foreword to the English version of Bresciani's book in 1937 he merely added what appeared with hindsight to be an obvious conclusion: 'Hitler is the foster-child of the inflation.'¹⁷

Bresciani's emphasis on fiscal and monetary policy as the cause of inflation was echoed by numerous contemporaries. Particularly in 1921 and 1922, many foreign observers – and a few German commentators¹⁸ – were loud in their criticisms of excessive government borrowing. Indeed even some of those who were inclined to defend the government's policy – Keynes, Frank Graham and the Reichsbank itself – acknowledged that fiscal and monetary laxity played at least some role in the collapse of the currency.¹⁹ There have, of course, been significant refinements of this view under the influence of more recent monetarist theory, particularly with respect to the final phase of hyperinflation.²⁰ Moreover, with more sophisticated definitions of

¹⁶ *Ibid.*, pp. 183, 215, 261f., 275, 286, 314f., 330ff., 404.

¹⁷ *Ibid.*, p. 5.

¹⁸ W. Eucken, *Kritische Betrachtungen zur deutschen Geldproblem* (Jena, 1923); A. Hahn, *Geld und Kredit* (Tübingen, 1924). On contemporary theories of inflation in Germany, see Bresciani, *Inflation*, pp. 42–7; H.S. Ellis, *German Monetary Theory, 1865–1933* (Cambridge, Mass., 1934), pp. 203–95; K. Hardach, 'Zur zeitgenössischen Debatte der Nationalökonomien über die Ursachen der deutschen Nachkriegsinflation', in H. Mommsen, D. Petzina, B. Weisbrod (eds.), *Industrielles System und Politische Entwicklung in der Weimarer Republik*, vol. I (Düsseldorf, 1977), pp. 368–75; C.-D. Krohn, 'Helfferich contra Hilferding. Konservative Geldpolitik und die sozialen Folgen der deutschen Inflation, 1918–1923', *VSWG*, 62 (1975), pp. 62–92; *idem*, *Wirtschaftstheorien als politische Interessen. Die akademische Nationalökonomie in Deutschland, 1918–1933* (Frankfurt am Main, 1981).

¹⁹ J.M. Keynes, *A Tract on Monetary Reform* (London, 1923); Graham, *Hyperinflation*, pp. 5ff., 35–48. For the Reichsbank's expressions of fiscal orthodoxy in July 1919 see C.-L. Holtfrerich, 'Reichsbankpolitik 1918–1923 zwischen Zahlungsbilanz- und Quantitätstheorie', *Zeitschrift für Wirtschafts- und Sozialwissenschaft*, 13 (1977), pp. 193–214.

²⁰ See esp. P. Cagan, 'The Monetary Dynamics of Hyperinflation', in M. Friedman, *Studies in the Quantity Theory of Money* (Chicago, 1956), pp. 25ff., T.J. Sargent and

money than Bresciani's, historians have been able to identify subtle variations in the course and dynamics of the inflation.²¹ Webb, in particular, has applied recent theoretical work on the role of expectations and the demand for money in the inflationary process to provide a more sophisticated model of the relationship between fiscal policy, monetary expansion and price movements.²² Nevertheless, the kernel of Bresciani's explanation of the inflation remains more or less intact, even in studies which identify more profound 'structural' factors as the causes of fiscal and monetary expansion.²³

Bresciani's negative view of the economic, social and political consequences of the inflation was also shared by numerous contemporaries, and remains influential. Willi Prion had been among the first economists to suggest that inflation investments might be based on 'illusory profits', concealing 'substance loss'; and the more recent work of Lindenlaub has done much to reinforce Bresciani's scepticism on this point, suggesting that engineering firms rarely took 'flight into real values' in response to increased inflation.²⁴ Likewise, Feldman, James

N. Wallace, 'Rational Expectations and the Dynamics of Hyperinflations', *International Economic Review*, 14 (1973), pp. 328ff.; *idem*, 'Rational Expectations and the Theory of Economic Policy', *Journal of Monetary Economics* (1976), pp. 169ff.; M. Khan, 'The Variability of Expectations in Hyperinflations', *Journal of Political Economy*, 85 (1977), pp. 817-27; R.L. Jacobs, 'Hyperinflation and the Supply of Money', *Journal of Money, Credit and Banking*, 9 (1977), pp. 287ff.; J.A. Frenkel, 'The Forward Exchange Rate, Expectations and the Demand for Money: the German Hyperinflation', *American Economic Review*, 67 (1977), pp. 653ff.; *idem*, 'Further Evidence on Expectations and the Demand for Money during the German Hyperinflation', *Journal of Monetary Economics*, 5 (1979), pp. 81-96; M.K. Salemi, 'Adaptive Expectations, Rational Expectations and Money Demand in Hyperinflation Germany', *Journal of Monetary Economics*, 5 (1979), pp. 593-604; M.K. Salemi and T.J. Sargent, 'The Demand for Money during Hyperinflation under Rational Expectations: II', *International Economic Review*, 20 (1979), pp. 741-58; A. Abel, R. Dornbüsch, J. Huizinga and A. Marcus, 'Money Demand during Hyperinflation', *Journal of Monetary Economics*, 5 (1979), pp. 97-104.

²¹ Cf. G. Merkin, 'Towards a Theory of the German Inflation: Some Preliminary Observations', in Feldman *et al.* (eds.), *Zwischenbilanz*, pp. 25-47.

²² S.B. Webb, 'Money Demand and Expectations in the German Hyperinflation: A Survey of the Models', in N. Schmukler and E. Marcus (eds.), *Inflation through the Ages. Economic, Social, Psychological and Historical Aspects* (New York, 1983), pp. 435ff.; *idem*, 'Government Debt and Inflationary Expectations as Determinants of the Money Supply in Germany, 1919 to 1923', *Journal of Money, Credit and Banking* (1985), pp. 479ff.; *idem*, 'Fiscal News and Inflationary Expectations in Germany after World War I', *Journal of Economic History*, 46, 3 (1986), pp. 769-94; *idem*, *Hyperinflation and Stabilisation in Weimar Germany* (New York/Oxford, 1989), pp. 9, 21-3, 30, 44-8, 51.

²³ C.-L. Holtfrerich, *The German Inflation, 1914-1923* (Berlin/New York, 1986); G.D. Feldman, *The Great Disorder. Politics, Economics and Society in the German Inflation* (New York/Oxford, 1993).

²⁴ W. Prion, *Zwei Vorträge über Scheingewinne* (Jena, 1922); D. Lindenlaub, 'Machinebauunternehmen in der Inflation 1919 bis 1923: Unternehmenshistorische

and others have stressed the damage done to the banking system by the inflation;²⁵ while Balderston has identified important links between the inflation and the subsequent weakness of the German capital market.²⁶ Pessimistic views of the impact of the inflation on workers' living standards have, of course, been popular among Marxist historians,²⁷ and have recently been underlined by Robert Scholz.²⁸ Similarly, the idea of the inflation as a material crisis of the bourgeoisie – which Bresciani had derived from the seminal work of Fritz Eulenberg²⁹ – continues to feature in the scholarly literature. Whether as *rentiers*, shopkeepers, professionals or salaried employees, middle-class groups continue to be seen by many historians as the inflation's principal material losers.³⁰ The idea of the inflation as a time of moral or cultural upheaval has also recently been reinforced by historians who have noted the coincidence of the inflation with increased criminality,

Überlegungen zu einigen Inflationstheorien', in Feldman *et al.* (eds.), *Zwischenbilanz*, pp. 49–106; *idem*, *Machinebauunternehmen in der Inflation 1919 bis 1923: Unternehmenshistorische Untersuchungen zu einigen Inflationstheorien* (Berlin/New York, 1985). For other sceptical views on this point see James, *German Slump*, pp. 125–30; Webb, *Hyperinflation*, pp. 84f., 100f.

²⁵ G.D. Feldman, 'Banks and Banking in Germany after the First World War', in Y. Cassis (ed.), *Finance and Financiers in European History, 1880–1960* (Cambridge, 1993), pp. 243–62; H. James, 'Banks and Bankers in the German Interwar Depression', in *ibid.*, pp. 263–73; James, *German Slump*, pp. 128ff., 140ff. Cf. M. Pohl, 'Die Situation der Banken in der Inflationszeit', in Büsch and Feldman (eds.), *Historische Prozesse*, pp. 83ff.; C.-L. Holtfrerich, 'Auswirkungen der Inflation auf die Struktur des deutschen Kreditgewerbes', in Feldman and Müller-Luckner (eds.), *Nachwirkungen*, pp. 187–208.

²⁶ T. Balderston, 'Links between Inflation and Depression: German Capital and Labour Markets, 1924–31', in Feldman and Müller-Luckner (eds.), *Nachwirkungen*, pp. 157–84; *idem*, *The German Economic Crisis, 1923–1932*, (Berlin, 1993), esp. pp. 184ff.

²⁷ See, e.g., H. Mottek, W. Becker and A. Schröter, *Wirtschaftsgeschichte Deutschlands. Ein Grundriß*. Bd. III: *Von der Zeit der Bismarckschen Reichsgründung 1871 bis zur Niederlage des faschistischen deutschen Imperialismus 1945* (Berlin, 1974), p. 246; K. Gossweiler, *Großbanken, Industriemonopol, Staat* (Berlin, 1971), pp. 143–55; J. Kuczynski, *Die Geschichte der Lage der Arbeiter unter dem Kapitalismus*. Bd. V: *Darstellung der Lage der Arbeiter in Deutschland von 1917/18 bis 1932/33* (Berlin, 1966), p. 150; C.-D. Krohn, *Die große Inflation in Deutschland, 1918–1923* (Cologne, 1977), p. 35; H. Burg, *Inflation und Klassenkampf. Ursachen, Widersprüche und Konsequenzen der Inflation in Imperialismus* (Berlin, 1977).

²⁸ R. Scholz, 'Lohn und Beschäftigung als Indikatoren für die soziale Lage der Arbeiterschaft in der Inflation', in Feldman *et al.* (eds.), *Anpassung*, pp. 278–322. See also M. Niehuss, *Arbeiterschaft in Krieg und Inflation. Soziale Lage und Schichtung der Arbeiter in Augsburg und Linz, 1910–1925* (Berlin/New York, 1984).

²⁹ F. Eulenberg, 'Die sozialen Wirkungen der Währungsverhältnisse', in *Jahrbücher für Nationalökonomie und Statistik*, 122, 6 (1924), pp. 748–94.

³⁰ See for example Graham, *Hyperinflation*, pp. 14, 24ff.; James, *German Slump*, p. 48; P.J. Lyth, *Inflation and the Merchant Economy, The Hamburg Mittelstand, 1914–1924* (New York/Oxford/Munich, 1990); A. Kunz, 'Variants of Social Protest in the German Inflation: The Mobilisation of Civil Servants in City and Countryside, 1920–1924', in Feldman *et al.* (eds.), *Anpassung*, pp. 323–56.

changing sexual mores – even the art of Expressionism.³¹ Finally, the argument that inflation undermined the political stability of the Republic by alienating middle-class groups has been persuasively developed by Childers, Jones and others.³² Borchardt has stressed the way the fear of inflation reduced the options open to policy makers in the Slump.³³

There is a further, international dimension to the case against the inflation. From 1919 onwards, there were many foreign observers who believed that the Germans were deliberately stimulating inflation to avoid paying reparations – a view recently revived by historians like Marks, Schuker and, most recently, Kent.³⁴ Their argument is that Germany could have paid more if the German government had been willing to depress domestic demand sufficiently to generate an export

³¹ G.D. Feldman, 'Weimar from Inflation to Depression: Experiment or Gamble?', in *idem* and Müller-Luckner (eds.), *Nachwirkungen*, pp. 385–402; *idem*, *Great Disorder*, pp. 527–55; J. von Krüedener, 'Die Entstehung des Inflationstraumas. Zur Sozialpsychologie der deutschen Hyperinflation, 1922/23', in Feldman *et al.* (eds.), *Konsequenzen*, pp. 213–86; D. Peukert, 'The Lost Generation: Youth Unemployment at the End of the Weimar Republic', in R.J. Evans and D. Geary (eds.), *The German Unemployed* (London/Sydney, 1987), pp. 188f.; *idem*, *The Weimar Republic. The Crisis of Classical Modernity* (London, 1991), pp. 71–6. See also J. Willett, *The New Sobriety, 1917–1933: Art and Politics in the Weimar Period* (London, 1978), pp. 82f.; *idem*, *The Theatre of the Weimar Republic* (New York/London, 1988), pp. 85, 190; C. Osborne, *The Politics of the Body in Weimar Germany. Reproductive Rights and Duties* (London, 1991), pp. 69ff.

³² L.E. Jones, '"The Dying Middle": Weimar Germany and the Fragmentation of Bourgeois Politics', *CEH*, 5 (1972), pp. 23–54; *idem*, 'Inflation, Revaluation and the Crisis of Middle Class Politics: A Study of the Dissolution of the German Party System, 1923–1928', *CEH*, 12 (1979), pp. 143–68; *idem*, 'Die Rückwirkungen der Inflation auf die Entwicklung des deutschen Parteiensystems in der Weimarer Republik', in Büsch and Feldman (eds.), *Historische Prozesse*, pp. 288–94; *idem*, 'In the Shadow of Stabilisation: German Liberalism and the Legitimacy Crisis of the Weimar Party System', in Feldman and Müller-Luckner (eds.), *Nachwirkungen*, pp. 21–41; T. Childers, 'Interest and Ideology: Anti-System Politics in the Era of Stabilisation, 1924–28', in *ibid.*, pp. 1–20. See also G.D. Feldman, 'The Historian and the German Inflation', in Schmukler and Marcus (eds.), *Inflation through the Ages*, pp. 386–99.

³³ K. Borchardt, 'Inflationsgefahren in der Weltwirtschaftskrise? Zu den Spielräumen der Brünningschen Wirtschaftspolitik, 1930–1932', in W. Engels *et al.* (eds.), *International Capital Movements, Debt and Monetary System. Essays in Honour of Wilfried Guth* (Mainz, 1984), pp. 21–42; *idem*, 'Das Gewicht der Inflationsangst in den wirtschaftspolitischen Entscheidungsprozessen während der Weltwirtschaftskrise', in Feldman and Müller-Luckner (eds.), *Nachwirkungen*, pp. 233–60.

³⁴ S. Marks, 'Reparations Reconsidered: A Reminder', *CEH*, 2, 4 (1969), pp. 356–65; 'The Myths of Reparations', *CEH*, 11 (1978), pp. 231–55; S. Schuker, 'Finance and Foreign Policy in the Era of the German Inflation: British, French and German Strategies for Economic Reconstruction after the First World War', in Büsch and Feldman (eds.), *Historische Prozesse*, pp. 343–61; *idem*, 'American "Reparations" to Germany, 1919–1933', in Feldman and Müller-Luckner (eds.), *Nachwirkungen*, pp. 335–83; B. Kent, *The Spoils of War. The Politics, Economics and Diplomacy of Reparations, 1918–1932* (Oxford, 1989).

surplus. Matters were made easy by the large amounts of foreign lending made available during and after the inflation; yet the Germans deliberately elected to continue inflationary monetary and fiscal policies, in the belief that allowing the mark to fall against the dollar would make the collection of reparations impossible. The implication of these arguments is that it was Germany which destabilised the post-war international order, in a vain attempt to wreck the reparations system. Whereas the French had approached the peace process with the best of intentions, hoping to establish some kind of economic partnership in Europe, and the Americans were willing to finance, albeit privately, European reconstruction, the Germans adopted a policy of sabotage. The result was an international crisis which culminated in the occupation of the Ruhr and did permanent damage to Franco-German relations.³⁵

Yet there have always been those who took a less severe view of the inflation. At a meeting with the American ambassador in Berlin in June 1922, the German Foreign Minister Walther Rathenau and the industrialist Hugo Stinnes offered two differing justifications for German policy:

[Rathenau] held [. . .] that inflation was no worse economically than controlling rents and maintained it only took from those who had and gave to those who had not, which in a country as poor as Germany was entirely proper. Stinnes [. . .] declared the choice had been between inflation and revolution and as between the two he favoured inflation.³⁶

For Stinnes, inflation was 'the only way of giving the population a regular employment, which was necessary to secure the life of the nation'.³⁷ 'It was,' he told Houghton some months later, 'politically necessary to put at work three million men coming back from the war. It was [. . .] a question of your money or your life.'³⁸ The Hamburg banker Carl Melchior made a similar point:

It was politically and socially necessary at the time and [. . .] could it have been controlled, no permanent harm would have occurred. It was not planned. It came about from the tremendous budget deficiency at the close of the war, when they had no funds. It became involved in the creation of new capital

³⁵ W.A. McDougall, *France's Rhineland Diplomacy 1914-1924. The Last Bid for a Balance of Power in Europe* (Princeton, 1978); M. Trachtenberg, *Reparation in World Politics: France and European Economic Diplomacy 1916-1923* (New York, 1980); S.A. Schuker, *The End of French Predominance in Europe. The Financial Crisis of 1924 and the Adoption of the Dawes Plan* (Chapel Hill, 1976).

³⁶ NAW, RG 59, 862.00/1128, Houghton to State Dept., 25.6.22. Cf. Feldman, *Great Disorder*, pp. 447ff.

³⁷ James, *German Slump*, p. 42.

³⁸ NAW, RG 59, 862.00/1199, Houghton to Secretary of State, 27.12.22.

to enable industry to hire the returning soldiers. It grew out of control owing to the demands on German resources from abroad.³⁹

Elsewhere he argued that the huge deficit on the state railways was necessary 'to avoid putting [. . .] 100,000 disposable employees [. . .] onto unemployment benefit and thus handing them over to political radicalism'.⁴⁰ Writing in November 1923, his senior partner Max Warburg underlined the point: 'It was always a question of whether one wished to stop the inflation and trigger the revolution.'⁴¹

For many years historians tended to be sceptical of such views, precisely because they were expressed by businessmen: they amounted, it was assumed, to cynical justifications for policies in which they and their firms had an economic interest.⁴² The Communist Georg Grosz's cartoons of bloated inflation profiteers in books like *Abrechnung folgt!* were simply the most vivid expression of the widely held view that 'big business' derived substantial material benefits from inflation at the expense of other social groups.⁴³ This view, albeit with substantial scholarly refinement, has proved remarkably persistent. Historians since Bresciani have suggested at least six distinct ways in which 'the inflation' was advantageous to business interests. It has been suggested that inflation reduced wage costs in real terms, because payments to workers lagged behind price increases,⁴⁴ and that it reduced the real value of business debts, interest payments and dividends.⁴⁵ Moreover, the tax burdens on business were eroded by inflation to levels far below what they would have been under conditions of stability, principally because protracted payment periods eroded the real value of profits and income taxes.⁴⁶ Indeed, business benefited doubly from

³⁹ *Ibid.* Cf. H.J. Rupieper, *The Cuno Government and Reparations 1922-1923. Politics and Economics* (The Hague/London/Boston, 1976), p. 198.

⁴⁰ WA, Politische Correspondenz 1921, Melchior to S. Japhet, 15.1.21.

⁴¹ WA, 'Jahresbericht 1923', p. 43.

⁴² Gossweiler, *Großbanken*, pp. 135f., 143ff. For a recent such view, see A. von Specht, *Politische und wirtschaftliche Hintergründe der deutschen Inflation, 1918-1923* (Frankfurt am Main, 1982).

⁴³ G. Grosz, *Abrechnung Folgt* (Berlin, 1923), pp. 14, 18f., 41.

⁴⁴ Bresciani, *Inflation*, pp. 104f., 233; Graham, *Hyperinflation*, pp. 197, 313.

⁴⁵ Bresciani, *Inflation*, pp. 104f.; Laursen and Pedersen, *German Inflation*, p. 118; C.S. Maier, *Recasting Bourgeois Europe. Stabilisation in France, Germany and Italy in the Decade after World War I* (Princeton, 1975), p. 82; Holtfrerich, *Inflation*, pp. 200f; Specht, *Politische Hintergründe*, pp. 35, 102, 148; J. Flemming, C.-D. Krohn and P.-C. Witt, 'Sozialverhalten und politische Reaktionen von Gruppen und Institutionen im Inflationsprozeß. Anmerkungen zum Forschungsstand', in Büsch and Feldman (eds.), *Historische Prozesse*, pp. 258f.

⁴⁶ Bresciani, *Inflation*, pp. 66, 71f, 105; Maier, *Recasting Bourgeois Europe*, p. 82; P.-C. Witt, 'Finanzpolitik und sozialer Wandel in Krieg und Inflation 1918-1924', in Mommsen et al. (eds.), *Industrielles System*, I, pp. 414-24; Holtfrerich, *Inflation*, pp. 134-7.

fiscal policy because of the many subsidies paid by the wartime and post-war governments to industry.⁴⁷ All of this inflated profits, allowing high levels of investment in plant and buildings – investments which in themselves made sense as a hedge against currency depreciation.⁴⁸ Thus while ordinary Germans went hungry,⁴⁹ German industry went on an investment spree, aided and abetted by Reichsbank credits at low or negative real interest rates.⁵⁰ Finally, the depreciation of the mark boosted business in an additional way, by giving German products a substantial competitive advantage on the world market, allowing ‘business to recapture many foreign markets’.⁵¹ In addition to these purely ‘economic’ benefits which business allegedly derived from inflation, two more political advantages have also been suggested: namely that inflation helped to contain the revolutionary threat posed to German capitalism in 1918–23,⁵² and, furthermore, that it helped business evade the heavy tax burdens which would have been imposed on it had the German government succeeded in ‘fulfilling’ the London schedule of reparations.⁵³

From the evidence of such economic benefits, it has been but a short step to the conclusion that businessmen were *responsible* for the inflation. The liberal journalist Georg Bernhard expressed this view clearly when he denounced Stinnes in October 1923: ‘He has woven intrigues against every Government which he was afraid would put in order the internal conditions of Germany. [. . .] His system of politics [. . .] has aimed at the maintenance of inflation and disorder.’⁵⁴ Historians have frequently echoed this accusation, levelling it more generally at ‘the great economic groups’ and ‘a conspiracy of the industrial classes [. . .] to impede the reform of the public finances and to sabotage all proposals for the reform of the exchange’.⁵⁵ For example:

⁴⁷ Bresciani, *Inflation*, p. 196; James, *German Slump*, pp. 170f.

⁴⁸ Bresciani, *Inflation*, pp. 196–201; Graham, *Hyperinflation*, pp. 88ff., 93f., 242, 323f.; Laursen and Pedersen, *Inflation*, pp. 95–8, 124ff.; Maier, *Recasting Bourgeois Europe*, p. 82; Specht, *Politische Hintergründe*, pp. 35, 102, 148; Peukert, *Weimar Republic*, p. 65.

⁴⁹ Depressed consumption is seen as having been a corollary of high investment; see Bresciani, *Inflation*, pp. 329f, 332f.; Graham, *Hyperinflation*, pp. 302–5.

⁵⁰ Bresciani, *Inflation*, p. 75–82.

⁵¹ *Ibid.*, pp. 101, 105, 293; Graham, *Hyperinflation*, pp. 187, 193, 260; Maier, *Recasting Bourgeois Europe*, pp. 67f., 71, 82; von Specht, *Politische Hintergründe*, p. 43.

⁵² Maier, *Recasting Bourgeois Europe*, *passim*. Cf. *idem*, ‘Inflation and Stabilisation in the Wake of Two World Wars: Comparative Strategies and Sacrifices’, in Feldman *et al.* (eds.), *Erfahrung*, p. 114.

⁵³ Specht, *Politische Hintergründe*, pp. 33, 38; Kent, *Spoils of War*, pp. 64f., 169.

⁵⁴ Bresciani, *Inflation*, p. 105. For similar, earlier allegations by Bernhard see StAH, SK II, II A4 Fasc. 29 Inv. 1, HG to SK, 30.1.23; 9.2.23.

⁵⁵ Bresciani, *Inflation*, pp. 57f., 74, 102–4, 330ff.: ‘The power of the great industrialists and [. . .] profiteers increased [. . .] There was established [. . .] the dictatorship of heavy industry – an industrial feudalism pitted against the nation.’ Cf. Graham,

'The government came increasingly under the influence of business interests who initially were the chief beneficiaries of the inflation. [. . .] The head of the government which carried on the inflationary financing of the Ruhr industrialists in 1923 was [himself] a man of big business.'⁵⁶ Such an interpretation clearly fits into a broader theme of German historiography. Most obviously, for Marxist-Leninist historians, the inflation was simply one episode in the story of German 'monopoly capitalism'. But there is also a degree of continuity in Western writing, leading from the work of Stegmann, Saul and others on the increasingly 'organised' capitalism of the Wilhelmine period,⁵⁷ *via* Feldman and Kocka's work on the war,⁵⁸ to the work of Weisbrod and others on the role of business interests in the collapse of Weimar and the establishment of the Third Reich.⁵⁹ The common factors in this admittedly far from homogeneous literature are an emphasis, firstly, on the role of heavy industry as the most powerful of business interests, secondly, on its increasing organisational concentration at the level of the concern, the cartel and the pressure group, and, finally, on its fundamentally malignant political role. Thus, from Saul's *Kaiserreich* to Weisbrod's Weimar, there is a theme of industrial sympathy for authoritarianism, combined with antagonism towards both parliamentary democracy and organised labour. The inflation years thus appear as the transitional phase, with Feldman's industrialists coming to

Hyperinflation, pp. 11, 281; Maier, *Recasting Bourgeois Europe*, pp. 69, 224, 414; P.-C. Witt, 'Staatliche Wirtschaftspolitik in Deutschland 1918-1923: Entwicklung und Zerstörung einer modernen wirtschaftspolitischen Strategie', in Feldman *et al.* (eds.), *Zwischenbilanz*, pp. 151-79.

⁵⁶ D.H. Aldcroft, *The Twenties. From Versailles to Wall Street, 1919-1929* (Harmondsworth, 1987), pp. 136f.

⁵⁷ D. Stegmann, *Die Erben Bismarcks. Parteien und Verbände in der Spätphase des Wilhelminischen Deutschlands. Sammlungspolitik 1897-1918* (Cologne, 1970); K. Saul, *Staat, Industrie und Arbeiterbewegung. Zur Innen- und Sozialpolitik des Wilhelminischen Deutschlands 1903-1914* (Düsseldorf, 1974). For the recent revival of Hilferding's idea of 'organised capitalism', see the essays in H.-A. Winkler (ed.), *Organisierter Kapitalismus* (Göttingen, 1974), esp. J. Kocka, 'Organisierter Kapitalismus oder Staatsmonopolistischer Kapitalismus? Begriffliche Vorbemerkungen', in *ibid.*, pp. 19-35; and the comments in G. Eley, 'Capitalism and the Wilhelmine State: Industrial Growth and Political Backwardness, 1890-1918', *HJ*, 21 (1978), pp. 737-50.

⁵⁸ G.D. Feldman, *Army, Industry and Labor in Germany, 1914-1918* (Princeton, 1966); *idem*, 'German Big Business between War and Revolution: The Origins of the Stinnes-Legien Agreement', in G.A. Ritter (ed.), *Entstehung und Wandel der modernen Gesellschaft. Festschrift für Hans Rosenberg zum 65. Geburtstag* (Berlin, 1970), pp. 312-41; *idem*, 'Der deutsche Organisierte Kapitalismus während der Kriegs- und Inflationsjahre, 1914-1923', in Winkler (ed.), *Organisierter Kapitalismus*, pp. 150-71; J. Kocka, *Klassengesellschaft im Krieg. Deutsche Sozialgeschichte 1914-1918* (Göttingen, 1973).

⁵⁹ B. Weisbrod, *Schwerindustrie in der Weimarer Republik. Interessenpolitik zwischen Stabilisierung und Krise* (Wuppertal, 1978); *idem*, 'Economic Power and Political Stability Reconsidered: Heavy Industry in the Weimar Republic', *Social History*, 4 (1979), pp. 241-63.